The
Mercantile
Bank
of Canada

ANNUAL REPORT 1983

Financial Highlights

($ in thousands except per common share amounts)	1983	1982
For the year ended October 31		
Net income	**$ 20,024**	$ 15,467
Dividends		
Common shares	**8,640**	8,640
Preferred shares	**3,982**	—
At October 31		
Assets	**$4,106,721**	$4,337,932
Loans	**3,207,479**	3,272,034
Deposits	**3,544,030**	3,805,787
Capital and reserves	**180,482**	175,958
Per Common Share		
Net income	**$ 2.01**	$ 1.93
Dividends	**1.08**	1.08
Book value	**17.97**	17.40

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To Our Shareholders

Some years ago Peter Drucker called this period the "Age of Discontinuity". It was his thesis, early in the seventies, that many basic factors were changing and significant adjustments would be required from all of us. The seventies and eighties so far have lived up to this prediction. There are indications that further adjustments in the way we do business, the way we govern ourselves, and our basic living conditions must be made before we come to an "Age of Continuity".

It is easy to trace the impact of the change in energy pricing of the seventies, and we are becoming aware now of the impact that electronic developments are making on our lifestyles as well as on our businesses. Because of the uncomfortable accommodations that we have all had to make, a number of questions have even arisen regarding the effectiveness of our governments' structures in this time of change.

Financial institutions are finding that their roles are changing rapidly. The demands for financial services are significantly different than they were twenty years ago. The technological developments make some services possible now that were not possible in the past. The evolution of the money markets, and most recently the futures markets, makes additional varieties of services possible. Electronic communications have broadened the marketplace. This rapid evolution is uncomfortable. It is only natural that many people long for the "good old days". Change in the best of times is difficult to accept. Fast changes at a time when the economies are weak are difficult for people in the financial industry to accept. In Canada there is an attempt for individual financial groups to redefine their "turf". There is a longing to believe that they can individually stake out their territories to the exclusion of other financial institutions.

The recent controversy between banks and brokers over the role of banks in providing discount brokerage services is only a minor question compared to the behind the scenes jockeying for positions. During the last Bank Act Revision, banks, as well as competing financial institutions, fought strenuously to stake out their claims. Banks attempted to broaden their franchise. As bankers, it appeared that we lost most of our fights in that we were precluded from broad base leasing, computer data services and even restricted in our ability to syndicate loans once we had made them.

We in Canada are aware of the debate developing in the United States on the deregulation of their financial institutions. It is important to remember that Canada is not the United States. The regulatory restrictions on financial institutions in the United States, particularly in the banking system, were and still are much more restrictive than within Canada. Their regulations clearly inhibited the development of efficient financial services within the banking system. As a result the financial services industry excluding the banks has grown rapidly. In Canada the Bank Act of 1967 promoted a more efficient banking system while the Bank Act of 1980 added a potential element of competition. I think it is important to the system that competition is encouraged. A financial system

should also provide a minimum protection level for the general public that must maintain relationships such as deposit relationships. Ideally it should be structured to reduce, if not eliminate, the possibility of conflict of interest within financial institutions. It will take a very delicate hand to provide increased competition while ensuring against conflict of interest problems.

Historically in Canada the debate has largely centered on territorial imperatives. In essence we are all fighting for the "turf" on which we stand. I think a new approach to the solution of our dilemma should be tried. By first establishing the goal to provide the most efficient cost effective financial services to the economy, we could then decide what regulatory controls are needed. It is important to ensure that real competition is possible so that power does not fall into the hands of a few. The inclusion of conflict of interest regulations is needed to ensure that the power that is within the institutions is not abused to the detriment of society.

Our view of the future indicates to us that our role as a provider of corporate finance could be endangered by a too rigid regulatory climate. Changes are required now, but they are evolutionary in nature rather than revolutionary. The Trust Companies Act should be given priority at this time. The proposed liberalization of the treatment of foreign banks should be implemented at an early date. If the Bank Act is to be opened up we would like to see the constriction on syndication of loans eliminated, and the treatment of reserves on deposits for all insurable deposits standardized.

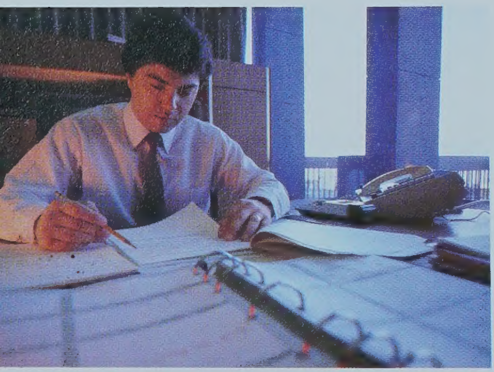
At this time we find the competition strong and healthy in Canada. Our results in 1983 showed our ability to start to recover from the serious recession of 1981-1982. The majority of our lending has traditionally been project oriented, with a high concentration in real estate markets. This type of lending was particularly profitable in the seventies, at a time when North American economies experienced strong growth underpinned by inflation.

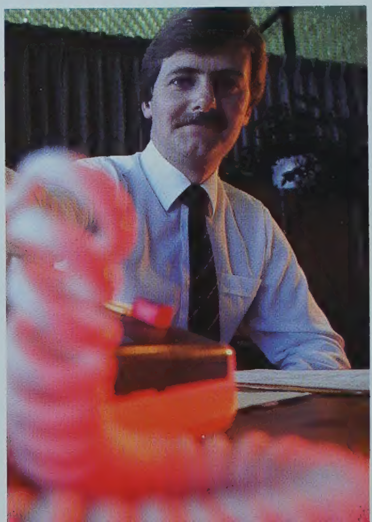
The recession adversely impacted a number of our clients. The extraordinarily high interest rates, coupled with the sharp reduction in the economy, required us to place a significant amount of our loans in the non-current category. In 1983 those loans started to reduce in volume with a drop in interest rates and with the beginning of recovery in certain industries. While interest rates did not go as low as we had anticipated, the year over year reduction was large enough to give ourselves and our clients the opportunity to begin recovery. Actual loan losses were lower in 1983 than 1982. We were able to hold our operating expenses practically level while assuming increases in premises expenses.

Going into 1984 we are optimistic that the recovery in the economies in Canada and the United States will continue. We expect that we will gradually reduce the percentage of our non-current loans and that interest rates will be somewhat lower than in 1983. We do not expect loan demand to be particularly strong next year but we have planned to increase our loan volumes above the present levels. 1984 should be a better year than 1983, but realistically, we will probably have to wait until 1985 before our earnings return to more normal levels.

R L Davidson

Robert L. Davidson
Chairman, President and
Chief Executive Officer





Competitive Markets Strategic Choices

In Vancouver, the Mercantile's corporate lending activities, headed by Vice President Kevin J. McKenna, comprise three lending groups. A unit of the Real Estate Division is also located in Vancouver under the guidance of Vice President William G. Bevis with Deborah J. Ambrose, Assistant Vice President. In the main photo, from left to right, Robert M. Gale, A.V.P. Corporate, William G. Bevis, V.P. Real Estate, Bruna A. Giacomazzi, A.V.P. Corporate, Robert T. Dean, A.V.P. Corporate.

Competition between financial institutions has taken on new and deeper meanings in North American markets. The combination of volatile economic conditions, rapid technological change and deregulation has tested and reshaped traditional markets. The severity of the recent recession has intensified the focus of participants on the competitive factors of the future.

We are often asked "How will you compete in this increasingly competitive environment?" We have asked ourselves this same question while revising our strategic plan over the past few years. The outstanding growth and earnings we exhibited in the seventies made others take notice. They began to emulate us and respond to our actions. We built our success by concentrating our energies and marketing skills on a very specific segment of the market – the middle market corporate borrower. We kept our costs low in relation to our assets. Many of our loans were project related, with major emphasis on real estate lending.

This strategy was well suited to a growth economy, particularly under inflationary conditions. It worked so well that we were flattered by competition patterned on our own strategy. The recent recession, coupled with enhanced competition, signalled a need for change, and caused us to re-examine our strategy. We developed a mission statement that said: "The Mercantile Bank of Canada will be a Canadian chartered bank using a cost efficient organization of outstanding financial professionals to provide a range of high value-added innovative products and services in selected industries/segments. It will provide these services in Canada, the U.S. and certain international markets. In so doing, the Bank intends to create real wealth for its shareholders while providing an opportunity for personal development and superior rewards for its people."

The mission statement provides a statement of broad strategic direction. This strategic direction builds on our specialist strengths and cost efficiency as the keys to delivering real value in the marketplace.

In order to develop and refine our competitive advantage, we identified the following key strategic areas to focus our efforts.

Outstanding Financial Professionals
The high quality of our staff is an essential ingredient in delivering value-added financial services. Our people must be creative, professional and highly motivated to succeed. We are proud of the high calibre of our people and are committed to attract, develop and retain outstanding financial professionals as our single most important asset. We have also committed to keeping our organization relatively "flat" and close to the market, without a highly layered internal structure. This keeps our best and most experienced people close to the markets we serve.

Our human resources policies are tailored to meet this commitment. We believe that retention and consistency of high quality people can provide a significant competitive edge.

Specialization by Industry and Product

Specialization has always been the cornerstone of our corporate strategy.

In the late sixties, we decided to concentrate our marketing effort exclusively on the corporate middle market. We gained expertise in this sector of the market and delivered innovative products and services which resulted in profitable growth for the Bank.

Today we are fine tuning our efforts even further. Borrowers increasingly require new products and services, closely tailored to their specific industry requirements and concerns. We are already considered leaders in our real estate expertise, and have delivered creative value-added products and services to this sector. We intend to expand our expertise even further in this area. We have underlined this real estate focus by establishing a separate lending division specializing exclusively in real estate.

We are actively developing and strengthening our abilities to provide a similar degree of knowledge and financial commitment to other selected industries. In addition to industry specialization, we have established a product specialization group as a focus for innovation and delivery of new financial products. This approach is discussed in the following section on Merchant Banking.

These capabilities, we believe, will enable us to actively maintain specialization by industry and product as a key factor in our competitive strategy.

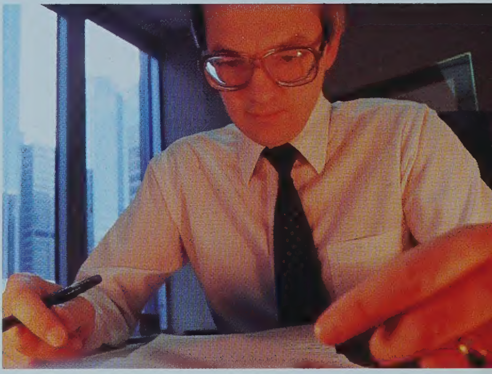
Merchant Banking

The Merchant Banking Group was formed last year to respond to our clients' needs for specialized financing alternatives.

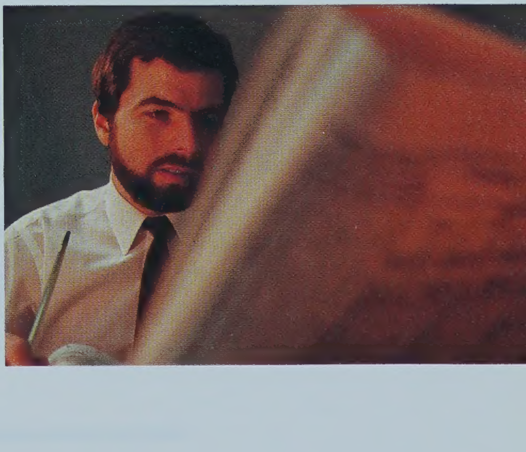
High and volatile interest rates have introduced new dimensions of risk to financing decisions. Terms such as operating loan, term loan or even debt and equity no longer adequately describe the specialized financing requirements of a business operating in the complex markets of the eighties.

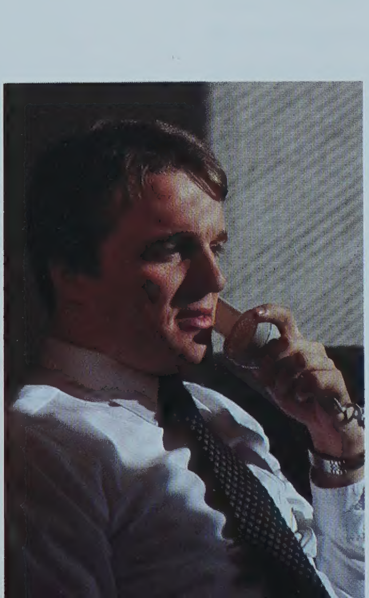
As financial managers have sought to minimize the impact of these risks on their businesses, they have demanded and received a proliferation of new products and financing techniques. Interest rate swaps, financial futures, options and "mezzanine" financing were all created to help provide businesses with stable sources of capital in the turbulent financial markets of the past few years.

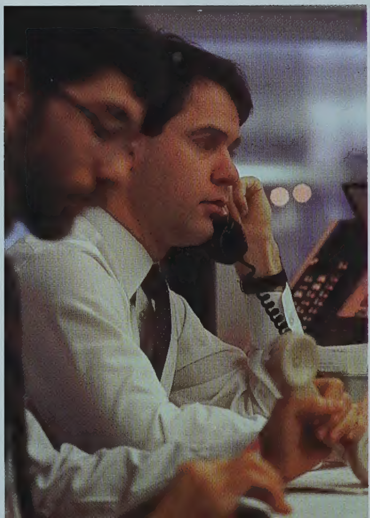
To date these innovations have best served the needs of the largest corporations, yet managers of medium sized companies need help in meeting these challenges to an even greater extent than their counterparts in large businesses. We have always been committed to tailoring specialized financing packages that meet the specific needs of our clients. The Merchant Banking Group, with its specialized expertise in new financing techniques, was formed to support the lending activities of the Mercantile's corporate banking divisions.



The Merchant Banking Group, located in Toronto, offers the Mercantile's clients new flexibility in meeting their financing needs through customized products and techniques previously available only to large corporations. The Group is headed by Jack Kiervin and John McLaughlin. In the main photo, from left to right, Tom Scheibelhut, Peter Scott, John McLaughlin and Jack Kiervin.







The term "Merchant Banking" denotes more than straightforward banking. Through the lending offices of the Bank, the Merchant Banking Group can offer equity funds (either permanent or temporary), asset-based financing or non-recourse project loans. These products offer the Bank's clients new flexibility to put previously illiquid resources on the balance sheet to work for their companies.

The Group can also bring to the medium sized business the benefits of a program of hedging interest rate exposure in the financial futures market. Merchant Banking provides the Corporate Banking group with a steady supply of medium term fixed rate funds in both U.S. and Canadian currencies.

Additionally, the Merchant Banking Group is establishing a network of resources outside the Bank to be employed in situations where syndications, pure venture capital or other sources can best serve the needs of a client.

In establishing the Merchant Banking Group, we have reaffirmed our commitment to provide our lending officers, and ultimately our clients, with the products and techniques to satisfy the demands of increasingly competitive markets.

Funding Diversification

Over the past several years we have moved aggressively and successfully to diversify our sources of funding.

We are continuing our strategy of greater diversification, which provides us with three distinct advantages. First, diverse sources allow movement between markets to minimize the cost of funds. Second, wider availability facilitates liquidity management. Third, and most important, our growing access to retail and smaller corporate depositors provides greater stability to our liability structure.

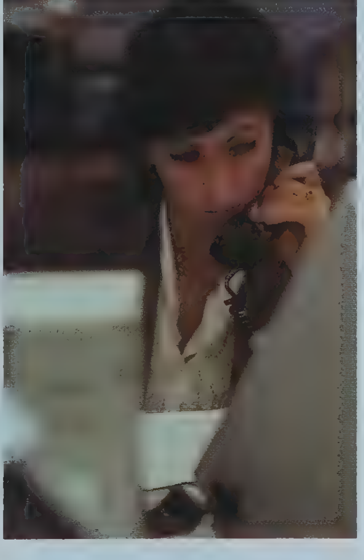
In Canada, we will build on our past success, with a focus on further reducing our cost of funds. In the United States, our initial objective will be to mirror the diversified base we currently enjoy in Canada.

We closely match the maturity structure of our assets and our liabilities. Most of our assets are floating rate loans tied to the prime rate, which we can match closely with short term liabilities. Fixed rate loans are funded specifically with similar fixed rate deposits. We have been very active in using the financial futures markets and other evolving financial techniques to manage this risk.

Our objective has been, and will remain, to use sophisticated financial management to control our interest rate risk. In future, we should be even more capable of selecting the degree of risk we feel appropriate, rather than passively accepting the risks produced by a funding book limited to traditional financial instruments.

Credit Management

We have concentrated on lending in high growth industries, including real estate and oil and gas lending. We offset the higher risk in these areas through the active credit management policies described in last year's Annual Report, placing strong emphasis on industry knowledge, good credit skills in the field, and firm requirements for tangible security.



In the Mercantile's trading room, located at the Bank's Head Office in Montreal, teams of traders are active in money markets, financial futures and foreign exchange.

Cost Efficiency

Cost is a crucial competitive variable in any market and financial markets are no exception.

Funding is our single largest cost. Our wholesale funding strategy results in a higher direct funding cost but produces cost savings in premises and other non-interest expenses. We shall continue to solicit large wholesale deposits, while utilizing our highly streamlined existing branch network to attract other sources of funds such as smaller corporate and retail deposits. The flexibility of this funding strategy will enable us to maintain our competitive advantage as a lean and responsive organization.

Credit losses are a major and difficult form of costs, which have recently required a good deal of active management. By strictly limiting large exposures and managing selected industry exposures, we intend to conservatively manage these costs at a level which will not impair our overall cost efficiency. This provides a direct cost advantage as well as lower costs of access to money markets due to lower risk levels.

Cost efficiency in premises and other non-interest expenses will continue to be based on closer matching of costs to asset levels. This year's flat operating expenses and improved productivity levels give us confidence in our ability to maintain control in this area.

U.S. Markets

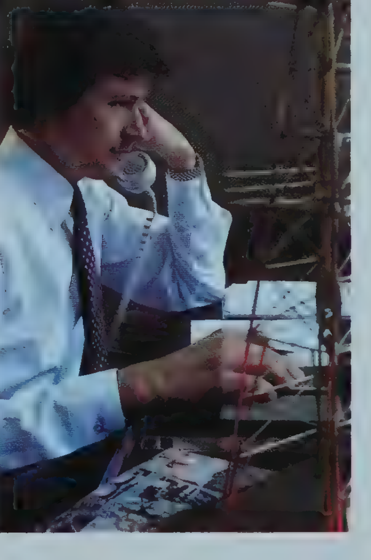
As we defined and developed these key strategic areas as a Canadian bank, we chose to further enhance our presence in the U.S. markets. We determined that U.S. markets offered middle market lending opportunities similar to those we had successfully established in Canada.

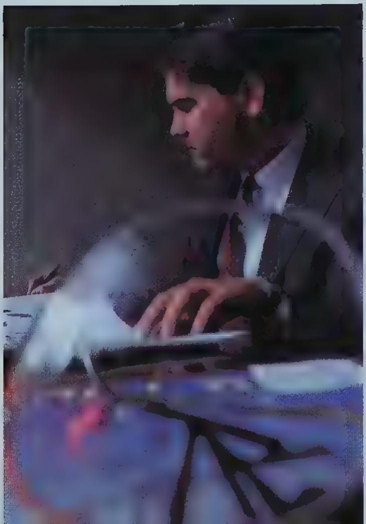
We have historically had a significant portion of our assets in U.S. dollars. To spearhead our intention to seek more of this business, in 1981 our existing U.S. lending was segregated from the Canadian bank and MBC Financial Services Corporation, a wholly-owned subsidiary, was formed. This subsidiary is strategically positioned as a leading provider of real estate, energy and corporate lending in the U.S. Southwest and concentrates on complex, value-added transactions, including asset-based lending and capital finance.

Looking Ahead

Our competitive advantages in today's and tomorrow's financial markets will be based on refinement of existing strengths. These will focus on providing real value through specialization in the corporate finance marketplace. We believe our progressive implementation of strategies based on this direction has positioned us to look forward to new challenges and new opportunities for growth and profitability.

In the Dallas branch, MBC Financial Services Corporation specializes in energy and real estate lending for the Southwestern United States. In the main photo, from left to right, William G. Campbell, Account Manager – Real Estate, Jerrell W. Jenkins, A.V.P. Real Estate, Robert H. Beriault, V.P. Energy, Gary C. Evans, A.V.P. Energy, Douglas A. Whiddon, Credit Analyst – Energy.





The following discussion, with accompanying charts, serves to highlight the fiscal year's financial results. Comparable data for previous years are provided to aid in analyzing and interpreting these results. Emphasis is given to those major factors which affected the year's performance.

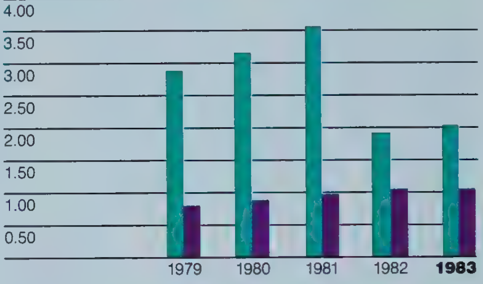
Net Income

Consolidated net income for fiscal 1983 was $20.0 million, an increase of $4.6 million over the previous year. In October of fiscal 1982 the Bank supplemented its capital position by issuing U.S.$30.0 million of preferred shares. As a result, most of the increase in net income for this year was payable to preferred shareholders. Net income per common share increased 4% to $2.01 from $1.93 in 1982. Dividends per common share remained at $1.08 for the year.

Net income before taxes improved substantially in 1983, increasing to $23.4 million from $8.2 million in 1982. Excluding the impact of the Bank's preferred share issue, pre-tax income rose to $19.4 million in 1983. The improvement in pre-tax income was in large part due to higher net interest income. Canadian interest rates remained relatively stable in 1983, and thus the Bank profited from a widening of interest spreads. Growth in operating expenses was limited to 1% in 1983 and contributed to the improved performance. Non-current loans brought about by the recent recession continue to be the prime negative factor affecting the Bank's profitability.

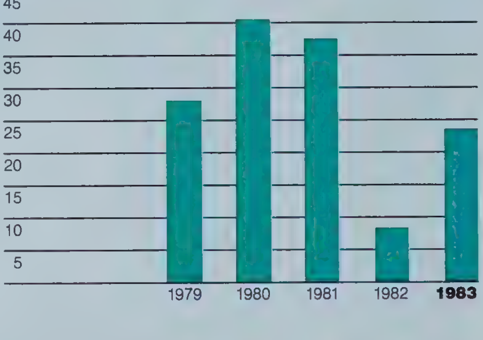
The significant increase in pre-tax income resulted in a provision of income taxes for 1983 of $3.3 million, compared to a tax credit in 1982 of $7.3 million. Included in the tax provision for 1983 is $0.5 million of deferred tax credits in recognition of timing differences carried forward for tax purposes. This compared to $11.3 million in 1982.

Net Income And Dividends ($ per share)



	1979	1980	1981	1982	1983
Net income per share	2.89	3.15	3.54	1.93	**2.01**
Dividends per share	0.82	0.90	0.99	1.08	**1.08**
Average shares outstanding (000)	8,000	8,000	8,000	8,000	**8,000**

Net Income Before Taxes ($ millions)



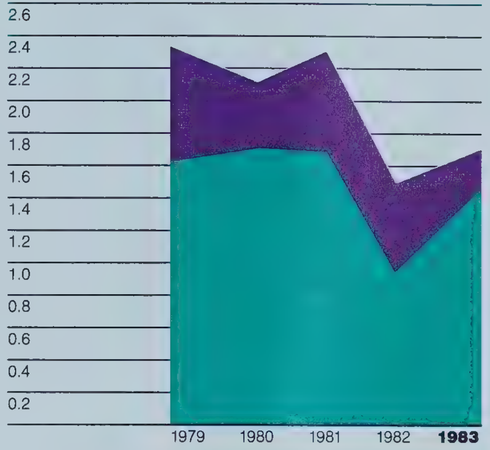
	1979	1980	1981	1982	1983
Net income before taxes	27.791	40.494	37.178	8.210	**23.354**
Taxes	4.647	15.276	8.898	(7.257)	**3.330**
Effective tax rate (%)	16.7	37.7	23.9	(88.4)	**14.3**

Net Interest Income

Net interest income increased $16.7 million or 31% over 1982 to $71.1 million. The improved net interest income, despite the high cost of carrying non-current loans, is attributable to wider interest spreads as rates stabilized during the year, substantial recovery of past due interest on previously classified non-current loans and a stronger capital base resulting from the preferred share issue in October of 1982.

The Bank's net interest spread, which is net interest income adjusted to a taxable equivalent basis to reflect tax-free security income and excluding security trading income, rose to 1.70% from 1.47% in 1982.

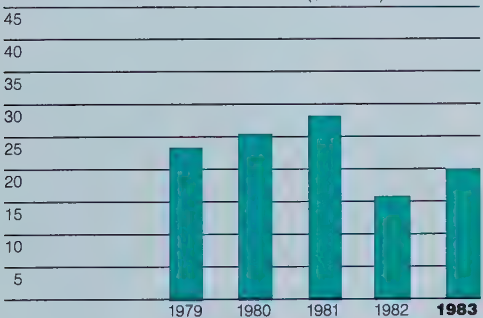
Interest Spreads (per cent)



■ Reported
■ Adjusted

	1979	1980	1981	1982	1983
Canadian prime	12.32	14.09	19.08	16.56	**11.63**
90-day Canadian deposit rate	11.50	12.65	18.08	14.74	**8.48**
U.S. prime	12.28	14.84	19.53	15.54	**11.15**
Euro-U.S. dollar deposits 3 months	11.76	13.58	17.80	13.73	**9.77**

Net Income After Taxes ($ millions)

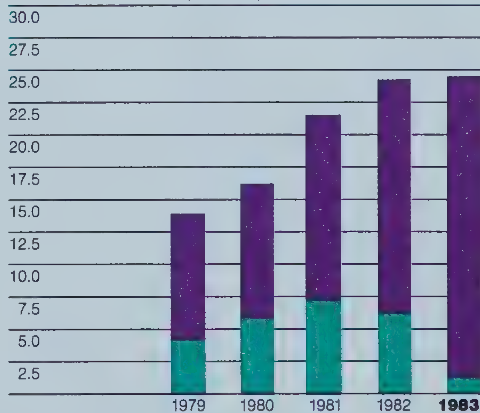


	1979	1980	1981	1982	1983
■ Net income	23.144	25.218	28.280	15.467	**20.024**

Other Income

Other income totalled $24.8 million in 1983, an increase of 2% from 1982 despite a $4.9 million decrease in foreign exchange earnings. The reduction in foreign exchange earnings was due to the stability of the Canadian dollar in relation to the U.S. dollar throughout the year. Commitment, standby and renegotiation fees increased $3.8 million in 1983 while bankers' acceptances fees rose $1.3 million.

Other Income ($ millions)



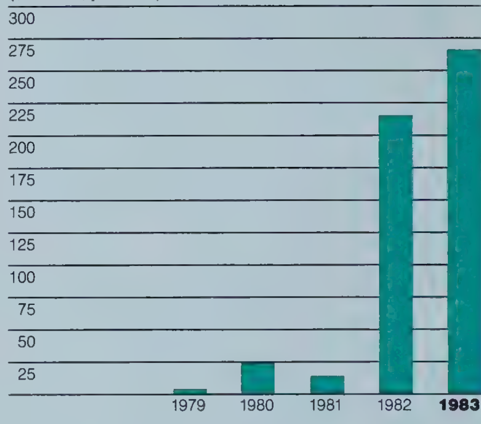
	1979	1980	1981	1982	1983
■ Foreign exchange	4.023	5.886	7.238	6.181	**1.242**
■ Fees & commissions	10.189	10.569	14.289	18.276	**23.602**
Total	14.212	16.455	21.527	24.457	**24.844**

Non-Current Loans

While a number of signs indicate that an economic recovery is now underway, the severity of the recent recession is still being experienced by many of our clients. Non-current loans, defined as loans where the borrower has not paid interest in accordance with the loan agreement for more than ninety days or where doubt exists as to its ultimate collectibility, increased substantially during the year. The problem was particularly acute in Western Canada as industries dependent on world export markets suffered from continuing depressed commodity prices. As well, an oversupply of new residential units and commercial office space has led to a relatively high level of non-current real estate loans. On October 31, 1983, non- current loans less specific reserves for losses totalled $266 million or 7.5% of total eligible assets compared to $216 million and 5.9% one year earlier.

The Bank's experience has been that most non-current loans are not subject to a loss of principal and that a large portion of these loans are restored to full productive status. In 1983 this was the case as lower interest rates, improved business prospects and successful negotiations between clients and the Bank's credit officers led to a consistent and substantial recovery of overdue interest. In 1984, as the recovery progresses, further improvement is expected.

Net Non-Current Loans
($ millions, year-end)



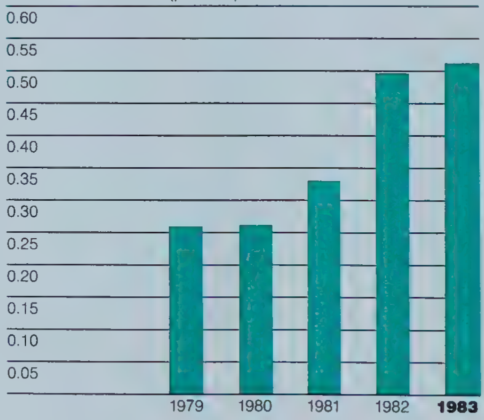
	1979	1980	1981	1982	1983
■ Net non-current loans – October 31	3.1	24.5	13.5	215.8	**265.6**
Loan loss experience components:					
Write-offs and increased provisions	4.4	12.5	23.5	63.8	**52.7**
Provisions reversed and recoveries	(1.2)	(6.3)	(6.7)	(33.2)	**(28.9)**
Loan loss experience for the year	3.2	6.2	16.8	30.6	**23.8**
Specific Reserves – October 31	12.3	15.6	29.3	49.9	**58.0**

Loan Loss Experience

The loan loss experience is the sum of loans written-off and the net changes in specific provision for doubtful loans during the year less recoveries of loans previously written-off. In 1983 the loan loss experience was $23.8 million, a decrease of $6.8 million from 1982. This reduction reflects a gradual improvement of the business environment for our clients.

The provision for loan losses charged to income, based on a five-year averaging formula prescribed by the Minister of Finance, was $16.7 million, up $1.4 million over 1982. Due to this averaging formula, which moderates year over year changes, the provision for loan losses will continue to remain high even as the loss experience declines.

Loan Losses (per cent)



	1979	1980	1981	1982	1983
■ Five year average loss ratio	.2623	.2663	.3364	.4963	**.5141**
($ thousands)					
Provision for loan losses	6,021	7,385	9,122	15,333	**16,726**
Loan loss experience	3,237	6,183	16,776	30,649	**23,808**
Increase/(decrease) to appropriations for contingencies	2,784	1,202	(7,654)	(15,316)	**(7,082)**

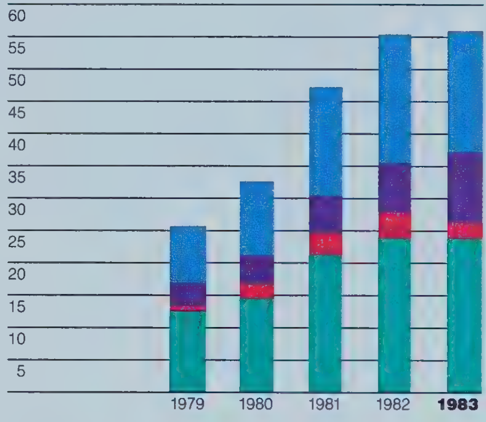
Non-Interest Expenses

During the year a number of cost control measures were implemented. The success of these measures resulted in the limiting of growth in non-interest expenses to 1% over 1982. It is expected that these programs will continue to have a positive effect in 1984.

Staff payments were reduced in 1983 by 5% to $26.7 million. On average for 1983, 863 people were employed by the Bank compared to 935 one year earlier. At year-end total staff complement stood at 826 employees, a reduction of 70 from 1982.

Premise and equipment costs rose by $3.3 million over 1982 and accounted for the net increase in total non-interest expenses. This increase was primarily attributable to higher premises costs resulting from the Bank's consolidation of corporate activities into Place Mercantile and further expansion of MBC Financial Services Corporation into U.S. markets. Other expenses were reduced by 7% in 1983 to $18.6 million. Increases in capital and business taxes, relocation costs and brokerage fees were more than offset by reduced management consulting fees, travel, recruitment and promotion expenses.

Non-Interest Expenses
($ millions)



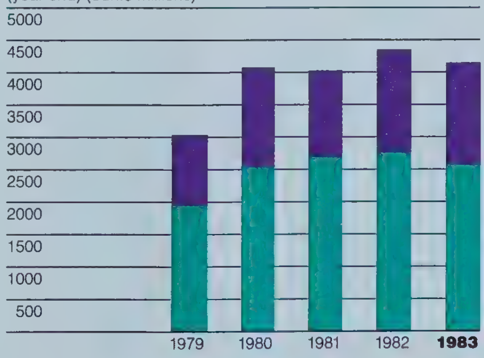
	1979	1980	1981	1982	1983
Salaries	12.313	14.877	21.012	23.651	**23.914**
Pension and other staff benefits	0.595	2.171	3.646	4.374	**2.789**
Premises and equipment	3.467	4.467	5.622	7.328	**10.602**
Other	9.177	11.111	16.986	19.997	**18.586**
Total	25.552	32.626	47.266	55.350	**55.891**
Branches and representative offices	19	19	18	17	**16**
Employees (as at Oct. 31)	737	863	949	896	**826**

Total Assets

Total assets of the Bank were $4.1 billion at October 31, 1983, a decrease of 5% or $231 million from 1982. Total loans of $3.2 billion declined 2% or $65 million from the previous year-end. The recent recession has led to a significant reduction in credit demand. Corporate clients, faced with high interest rates and diminished business prospects, have reduced their working capital requirements and have taken advantage of improved equity and bond markets. The combination of lower interest rates and a gradually strengthening business environment is expected to lead to growth in loan demand in 1984.

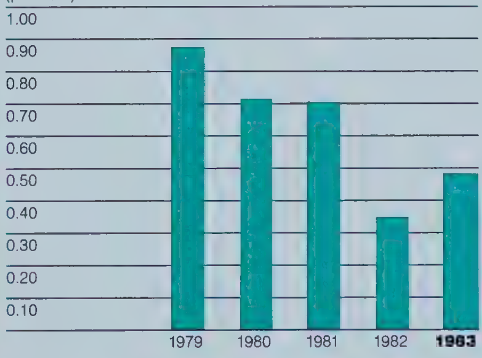
A decrease in average assets combined with modest growth in net income resulted in the Bank's return on average assets increasing to 0.48% in 1983 from 0.35% in the previous year.

Total Assets
(year end) (cdn.$ millions)



	1979	1980	1981	1982	1983
Canadian dollar	1,906.0	2,555.4	2,695.4	2,733.8	**2,593.6**
Foreign currency	1,146.5	1,519.3	1,318.8	1,604.1	**1,513.1**
Total	3,052.5	4,074.7	4,014.2	4,337.9	**4,106.7**

Return On Average Assets
(per cent)



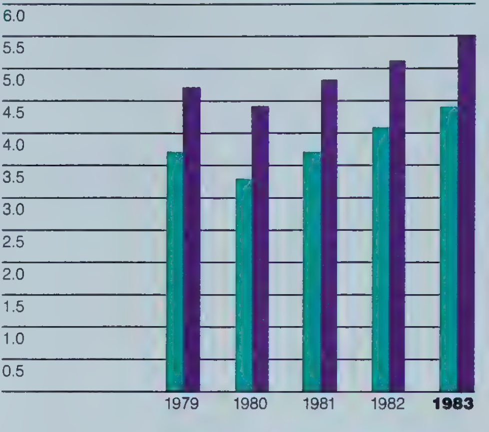
	1979	1980	1981	1982	1983
Return on average assets	0.87	0.71	0.70	0.35	**0.48**

Capital Funds

Total capital funds and reserves, including subordinated debt, increased from 5.1% to 5.5% of total assets in 1983. The improvement in this ratio is primarily attributable to the decline in total assets from 1982. On October 31, 1983 the ratio of total assets to capital and reserves, excluding subordinated debt, was 22.8x compared to 24.7x one year earlier.

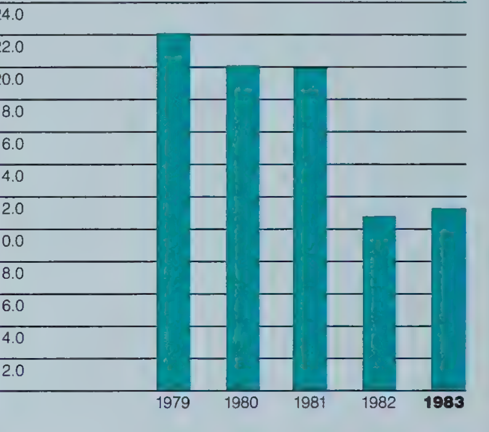
Return on average common shareholders' equity was 11.3% in 1983, up slightly from 10.8% in 1982.

Total Capital Funds/ Total Assets (per cent)



	1979	1980	1981	1982	1983
Total capital & reserves	114.2	135.7	148.3	176.0	**180.5**
■ As a % of total assets	3.7	3.3	3.7	4.1	**4.4**
Total subordinated debt, capital & reserves	144.2	177.7	193.3	221.0	**225.5**
■ As a % of total assets	4.7	4.4	4.8	5.1	**5.5**

Return On Common Shareholders Equity (per cent)



	1979	1980	1981	1982	1983
■ Return on common shareholders equity	22.1	20.2	19.9	10.8	**11.3**

Geographic Distribution of Assets and Income

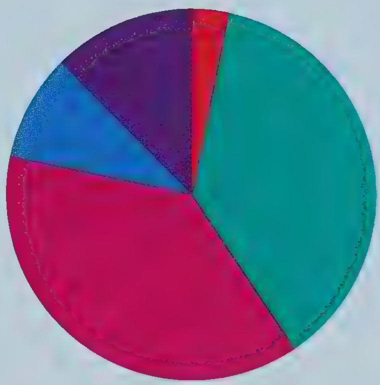
The Bank's distribution of risk assets and income is based on the location of ultimate risk, which is defined as the location of the borrower or, if guaranteed, the guarantor. Risk assets include total loans, securities, deposits with banks and customers' liability under acceptances. Income includes total interest income, dividends and other income but excludes interest on mortgages.

Risk assets in Canada represented 70.7% of the Bank's total risk portfolio and contributed 66.6% of total income. Canadian and U.S. risk assets combined were 92.5% of total risk assets and contributed 92.0% of total income. U.S. risk assets are primarily middle market corporate loans held by the Bank's two wholly-owned subsidiaries: Mercantile Bank of Canada International N.V. and MBC Financial Services Corporation. International assets beyond North America totalled $281 million and represented 7.5% of total risk assets. The Bank has not actively pursued offshore international lending in the past few years and as a result international loans do not represent a major component of the Bank's portfolio. Less than 1% of the Bank's total offshore international loans was considered as non-current at year-end.

Loans by Sector

Canadian dollar loans accounted for 58.5% of total loans, down 1.2% from 1982, reflecting the weak credit demand in Canada. Loans to industrial and merchandising companies decreased $69.7 million to $1.2 billion and represent 37.5% of the total loan portfolio at September 30, 1983. Real estate and construction loans totalled $1.2 billion or 37.5% of total loans as compared to 35.3% in 1982.

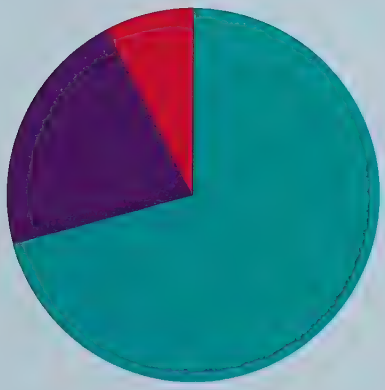
Loans By Sector – 1983



September 30, 1982 ($ millions)	Canadian dollar	Foreign currency	Total
Personal loans	131.3	9.6	140.9
Industrial and merchandising	902.6	382.3	1284.9
Real estate and construction	557.5	696.8	1254.3
Financial institutions	345.3	123.1	468.4
Other loans	184.9	222.7	407.6
Total	2121.6	1434.5	3556.1

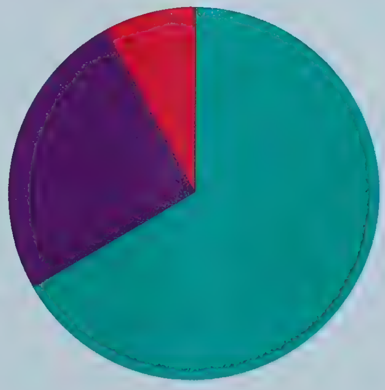
September 30, 1983 ($ millions)	Canadian dollar	Foreign currency	Total
Personal loans	**106.6**	**8.3**	**114.9**
Industrial and merchandising	**831.8**	**383.4**	**1215.2**
Real estate and construction	**563.9**	**652.1**	**1216.0**
Financial institutions	**205.1**	**98.6**	**303.7**
Other loans	**187.1**	**203.3**	**390.4**
Total	**1894.5**	**1345.7**	**3240.2**

Geographic Distribution Of Risk Assets – 1983



Risk assets ($ millions)	October 31, 1982		October 31, 1983	
Domestic	$2790.8	70.1%	**$2653.3**	**70.7%**
United States	906.1	22.8%	**819.5**	**21.8%**
Other				
Europe	46.4	1.2%	**71.5**	**1.9%**
Brazil	60.3	1.5%	**70.0**	**1.9%**
Mexico	52.7	1.3%	**51.1**	**1.4%**
Other Latin America/Caribbean	81.0	2.0%	**48.6**	**1.3%**
Asia/Pacific	8.1	0.2%	**7.4**	**0.2%**
Middle East/ Africa	37.0	0.9%	**32.3**	**0.8%**
Total risk assets	$3982.4	100.0%	**$3753.7**	**100.0%**

Geographic Distribution Of Income – 1983



Income ($ millions)	1982		**1983**	
Domestic	$478.0	72.9%	**$307.8**	**66.6%**
United States	127.7	19.5%	**117.6**	**25.4%**
Other international	49.9	7.6%	**37.0**	**8.0%**
Total income	$655.6	100.0%	**$462.4**	**100.0%**

Consolidated Statement of Assets and Liabilities
As at October 31, 1983 (thousands of dollars)

Assets	**1983**	1982
Cash Resources		
Cash and deposits with Bank of Canada	**$ 113,638**	$ 151,348
Deposits with other banks	**43,996**	196,281
	157,634	347,629
Securities (Note 2)		
Issued or guaranteed by Canada	**195,161**	208,763
Other securities	**129,049**	282,157
	324,210	490,920
Loans		
Loans to banks	**77,570**	71,218
Mortgage loans	**85,839**	98,594
Other loans	**3,044,070**	3,102,222
	3,207,479	3,272,034
Other		
Customers' liability under acceptances	**263,853**	121,751
Land, buildings and equipment (Note 3)	**42,130**	32,035
Other assets	**111,415**	73,563
	417,398	227,349
	$4,106,721	$4,337,932

Robert L. Davidson
Chairman, President
and Chief Executive Officer

Raymond M. Roy
Executive Vice President
for Chief General Manager

Liabilities	1983	1982
Deposits (Note 4)		
Payable on demand	**$ 61,610**	$ 68,988
Payable after notice	**9,848**	5,017
Payable on a fixed date	**3,472,572**	3,731,782
	3,544,030	3,805,787
Other		
Cheques and other items in transit, net	**5,303**	87,570
Acceptances	**263,853**	121,751
Other liabilities	**68,053**	101,866
	337,209	311,187
Subordinated Debt		
Bank debentures (Note 5)	**45,000**	45,000
	45,000	45,000
Capital and Reserves		
Appropriations for contingencies	**15,833**	12,215
Shareholders' equity		
Capital stock (Note 6)		
Class A Preferred shares	**36,720**	36,720
Common shares	**40,000**	40,000
Contributed surplus	**11,950**	11,950
Retained earnings	**75,979**	75,073
	180,482	175,958
	$4,106,721	$4,337,932

Auditors' report to the shareholders

We have examined the consolidated statement of assets and liabilities of The Mercantile Bank of Canada as at October 31, 1983 and the consolidated statements of income, appropriations for contingencies and changes in shareholders' equity for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the Bank as at October 31, 1983 and the results of its operations for the year then ended in accordance with prescribed accounting principles applied on a basis consistent with that of the preceding year.

Montreal, Quebec
December 5, 1983

Peat, Marwick, Mitchell & Cie
Thorne Riddell

Consolidated Statement of Income

Year ended October 31, 1983 (thousands of dollars)

	1983	1982
Interest Income		
Income from loans, excluding leases	$ 387,688	$ 573,532
Income from lease financing	3,183	3,492
Income from securities	47,140	50,816
Income from deposits with banks	11,513	16,016
Total interest income, including dividends	449,524	643,856
Interest Expense		
Interest on deposits	362,165	583,364
Interest on bank debentures	4,418	5,196
Interest on liabilities other than deposits	11,814	860
Total interest expense	378,397	589,420
Net interest income	71,127	54,436
Provision for loan losses	16,726	15,333
Net interest income after loan loss provision	54,401	39,103
Other income	24,844	24,457
Net interest and other income	79,245	63,560
Non-Interest Expenses		
Salaries	23,914	23,651
Pension contributions and other staff benefits	2,789	4,374
Premises and equipment expenses, including depreciation	10,602	7,328
Other expenses	18,586	19,997
Total non-interest expenses	55,891	55,350
Net income before provision for income taxes	23,354	8,210
Provision for income taxes (Note 7)	3,330	(7,257)
Net income for the year	$ 20,024	$ 15,467
Average number of common shares outstanding	8,000,000	8,000,000
Net income per common share	$ 2.01	$ 1.93
Dividends declared	$ 8,640	$ 8,640
Dividends per common share	$ 1.08	$ 1.08

Consolidated Statement of Appropriations for Contingencies

Year ended October 31, 1983 (thousands of dollars)

	1983	1982
Balance at beginning of year		
Tax-allowable	$ (2,306)	$ 12,531
Tax-paid	14,521	—
Total	12,215	12,531
Changes during year		
Net loss experience on loans	(23,808)	(30,649)
Provision for loan losses included in the Consolidated Statement of Income	16,726	15,333
Transfer from retained earnings	10,700	15,000
Net change during year	3,618	(316)
Balance at end of year		
Tax-allowable	(192)	(2,306)
Tax-paid	16,025	14,521
Total	$ 15,833	$ 12,215

Consolidated Statement of Changes in Shareholders' Equity

Year ended October 31, 1983 (thousands of dollars)

	1983	1982
Capital Stock (Note 6)		
Balance at beginning of year		
Common shares	$ 40,000	$ 40,000
Preferred shares	36,720	—
Increase during the year		
Preferred shares	—	36,720
Balance at end of year	$ 76,720	$ 76,720
Contributed Surplus		
Balance at beginning and end of year	$ 11,950	$ 11,950
Retained Earnings		
Balance at beginning of year	$ 75,073	$ 83,844
Net income for the year	20,024	15,467
Dividends – common shares	(8,640)	(8,640)
– preferred shares	(3,982)	—
Share issue expenses net of tax	(121)	(598)
Transfer to appropriations for contingencies	(10,700)	(15,000)
Income taxes related to the above transfer	4,325	—
Balance at end of year	$ 75,979	$ 75,073

All tabular dollar amounts are in thousands unless otherwise stated.

1. Significant accounting policies

The Bank Act and the related rules issued under the authority of the Minister of Finance prescribe the format of the financial statements and the significant accounting policies. The significant accounting policies are as follows:

Consolidation

The consolidated financial statements include the assets and liabilities and results of operations of the Bank's subsidiaries, all of which are wholly owned:

- Mercantile Canada Finance B.V.
- The Mercantile Bank of Canada International N.V.
- MBC Financial Services Corporation
- Mercantile Leasing Limited
- MBC Mortgage Corporation
- MBC Realty Corporation

The consolidated financial statements also include the Bank's proportionate share of all assets and liabilities of a joint venture which owns and operates Place Mercantile, the Bank's headquarters in Montreal.

Income Recognition

All significant revenues and expenses are accounted for on the accrual basis of accounting. Accrued interest on current loans, securities and deposits is recorded in the Consolidated Statement of Assets and Liabilities in other assets and other liabilities.

Securities

Fixed term securities held in the investment account are carried at amortized cost while other securities are carried at cost. Trading account securities are carried at market value.

Realized gains and losses on the disposal of fixed term securities are amortized on a straight-line basis over a period of five years. The unamortized balances of realized gains and losses are included in other assets or other liabilities in the Consolidated Statement of Assets and Liabilities. Realized gains and losses on the disposal of Government of Canada Treasury Bills and equity securities are reflected in the Consolidated Statement of Income in the period in which they are incurred. Gains and losses on securities in the trading account resulting from disposals and revaluations to market are recognized in full as they occur in the Consolidated Statement of Income.

Loans

Loans are recorded at estimated realizable value. Increases or decreases in specific provisions required to adjust loans to estimated realizable value together with write-offs and cash recoveries on loans previously written off comprise the loan loss experience for the year.

The provision for loan losses included in the Consolidated Statement of Income results from applying a five-year moving weighted average ratio of loan loss experience to outstanding eligible loans at year-end. The method of calculation and the definition of eligible loans are prescribed in regulations issued by the Minister of Finance.

The difference between the actual loan loss experience for the year and the provision for losses is charged or credited in the Consolidated Statement of Appropriations for Contingencies.

Loans are determined to be non-current when the borrower has not paid interest in accordance with the loan agreement for 90 days or more or where the Bank has taken realization proceedings or where the Bank's management is of the opinion that the loans should be regarded as non-current. Non-current loans are placed on a non-accrual basis and unpaid interest accrued on the loan is reversed and charged against current earnings. Any payments received in respect of non-current loans where losses have been provided for, are first applied to reduce the principal amount.

Appropriations for Contingencies

The Bank maintains an Appropriations for Contingencies account the purpose of which is to provide for unforeseen future losses in respect of loans. This appropriation is in addition to provisions against specific loans.

The account consists of two portions, tax-allowable and tax-paid. Transactions through the tax-allowable portion include the net loan loss experience and the provision for loan losses charged to the Consolidated Statement of Income in respect of the Bank itself, together with transfers from retained earnings. The tax-allowable portion, which is not subject to tax, is limited to an amount equal to 1½% of the aggregate book value of the eligible assets net of specific provisions in respect of these assets up to a value of $2 billion and 1% of the remainder of eligible assets.

Transactions through the tax-paid portion include the net loan loss experience and the provision for loan losses charged to the Consolidated Statement of Income in respect of subsidiaries of the Bank, together with any transfers upon which income tax has been paid. In addition the Bank may make transfers from retained earnings to tax-paid appropriations as deemed appropriate.

Land, Buildings and Equipment

Land is recorded at cost while buildings and equipment are carried at cost less accumulated depreciation. Buildings and equipment are depreciated over their estimated useful lives using the straight-line method. Gains and losses on the disposal of fixed assets are recorded in the Consolidated Statement of Income.

Translation of Foreign Currencies

Assets and liabilities in foreign currencies are translated to Canadian dollars using exchange rates at year-end. Revenue and expenses in foreign currencies are translated to Canadian dollars at the average exchange rates prevailing throughout the year. The U.S. dollar preferred shares and an equivalent amount of U.S. dollar assets have been translated to Canadian dollars using the exchange rate at the date of issue of the preferred shares.

Foreign exchange positions are hedged as much as possible by forward exchange contracts. Gains and losses on translation of foreign currencies and on revaluation of the unhedged foreign currency position are reported in other income in the Consolidated Statement of Income.

Income Taxes

Deferred income taxes are provided to recognize the effect of items of income and expense that may affect income for tax purposes in a period different from that in which they affect income for accounting and reporting purposes. Income taxes provided represent taxes applicable to the income reported in the Consolidated Statement of Income and to the tax-allowable appropriations from retained earnings recorded in the Consolidated Statement of Appropriations for Contingencies regardless of when such taxes are actually paid. When the Bank is virtually certain of realizing a future income tax reduction from a loss for tax purposes incurred in the reporting period, such future income tax reduction is recognized in the accounts in the current year. Deferred income taxes are recorded in other assets or other liabilities, as applicable. Income taxes are not provided on unremitted income of foreign subsidiaries as such income is reinvested abroad.

Acceptances

The potential liability of the Bank under acceptances is reported as a liability in the Consolidated Statement of Assets and Liabilities. The Bank's recourse against the customer in the event of a call on any of these commitments is reported as an offsetting asset of the same amount.

Pension Plan

Actuarial valuations of the Bank's pension plan are made at least every three years. Pension costs are charged in the Consolidated Statement of Income.

2. Securities	1983	1982
Securities issued or guaranteed by Canada:		
Treasury bills	**$137,601**	$153,008
Other securities maturing within three years	**10,033**	2,010
Other securities	**47,392**	34,094
Municipal corporations	**1,485**	—
	196,511	189,112
Other securities:		
Debt of Canadian issuers		
Income debentures	**—**	9,560
Other	**25,000**	92,963
Debt of foreign issuers	**24,335**	29,232
	49,335	131,755
Equities of Canadian issuers:		
Term preferred shares	**78,148**	149,742
Other	**81**	660
	78,229	150,402
Total securities held for investment account	**324,075**	471,269
Securities held for trading account	**135**	19,651
Total securities, at carrying value	**$324,210**	$490,920

The maturity analysis of the above securities, at carrying values, is as follows:

	Securities issued or guaranteed by		Other securities		1983	1982
	Canada	Municipal corporations	Debt	Equity	**Total**	Total
Year of maturity						
Under one year	$139,604	$ —	$29,450	$ 1,611	**$170,665**	$286,901
1 to 3 years	10,033	—	—	4,000	**14,033**	14,716
3 to 5 years	14,375	—	—	10,000	**24,375**	10,364
5 to 10 years	—	—	—	58,037	**58,037**	98,082
Over 10 years	31,149	1,485	19,885	4,500	**57,019**	80,197
No specific maturity	—	—	—	81	**81**	660
Total	**$195,161**	**$1,485**	**$49,335**	**$78,229**	**$324,210**	$490,920

3. Land, Buildings and Equipment	1983			1982
	Cost	**Accumulated depreciation**	**Net book value**	Net book value
Land	**$ 1,693**	**$ —**	**$ 1,693**	$ 1,519
Buildings	**22,465**	**16**	**22,449**	19,454
Equipment	**11,610**	**4,193**	**7,417**	5,515
Leasehold improvements	**13,329**	**2,758**	**10,571**	5,547
	$49,097	**$6,967**	**$42,130**	$32,035

4. Deposits	**1983**	1982
Deposits by Canada	**$ 4,374**	$ 1,956
Deposits by provinces	**34,981**	39,001
Deposits by banks	**1,273,395**	1,285,666
Deposits by individuals	**238,142**	142,392
Other deposits	**1,993,138**	2,336,772
	$3,544,030	$3,805,787

5. Debentures	**1983**	1982
The debentures are subordinated to the claims of depositors and other creditors and consist of: 9% debentures due January 3, 1997, redeemable on January 3, 1987 if option exercised between January 15 and July 15, 1986 (authorized $30,000,000)	**$ 30,000**	$ 30,000
Variable rate debentures due October 4, 1995 with interest payable at a rate per annum equal to Mercantile Bank Prime less one half of one per cent, redeemable on or after October 5, 1986 at the option of the Bank (authorized $15,000,000)	**15,000**	15,000
	$ 45,000	$ 45,000

6. Capital Stock

The authorized share capital of the Bank consists of 20,000,000 common shares of the par value of $5 each, of which 8,000,000 are issued and outstanding; 5,000,000 class A preferred shares without nominal or par value, issuable in series for an aggregate consideration not exceeding $100 million, of which 1,200,000 U.S. $2.6875 Cumulative Redeemable Class A Preferred Shares, Series 1 have been issued for an aggregate cash consideration of U.S. $30,000,000; and 5,000,000 class B preferred shares without nominal or par value, issuable in series for an aggregate consideration not exceeding $100 million, none of which are outstanding.

The U.S. $2.6875 Cumulative Redeemable Class A Preferred Shares, Series 1 have a stated value of U.S. $25.00 and are retractable at the option of the holder on December 31, 1992 at U.S. $25.00 per share. The shares are redeemable after December 31, 1989 at prices commencing at U.S. $26.20 per share and declining by U.S. $0.40 each year to U.S. $25.00 per share on January 1, 1993. The holders of the Series 1 Preferred Shares have the right to elect to receive any dividend, retraction or redemption payment in the Canadian dollar equivalent thereof.

7. Provision for Income Taxes

The aggregate provision (credit) for income tax is made up as follows:

	1983	1982
Consolidated Statement of Income		
current	**$ 3,787**	$ 4,037
deferred	**(457)**	(11,294)
	3,330	(7,257)
Retained Earnings		
deferred	**(4,434)**	(583)
	$(1,104)	$ (7,840)

The Bank's provision for income taxes differs from the marginal tax rate applied to net income before provision for income taxes since certain sources of income are exempt from tax or are taxed at less than the marginal rates. The components of the Bank's effective income tax rate are the following:

	1983	1982
Combined marginal Canadian federal and provincial income tax rate	**47.1%**	48.4%
Effect of tax-exempt income from securities	**(22.9)**	(109.2)
Lower average tax rate on earnings of foreign subsidiaries	**(16.9)**	(53.2)
Excess foreign non-business income taxes	**7.9**	23.4
Miscellaneous	**(0.9)**	2.2
Effective income tax rate	**14.3%**	(88.4)%

Other assets include deferred taxes in the amount of $20,125,000 (1982-$15,169,000) in recognition of both timing differences and losses carried forward for tax purposes.

8. Long-term Commitments for Leases

Rental expense under long-term non-cancellable operating leases for premises and equipment for the year ended October 31, 1983 was $7,563,000 (1982 – $4,814,000). Future rental commitments for premises and equipment involving annual rentals in excess of $25,000 per unit are as follows:

	Buildings	Equipment	Total
1984	$ 5,685	$359	$ 6,044
1985	5,204	284	5,488
1986	4,754	201	4,955
1987	4,514	—	4,514
1988 and thereafter	24,641	—	24,641
	$44,798	$844	$45,642

9. Pension Costs

The Bank's employee pension plan covers all employees of the Bank in Canada after one year of service and was fully funded at October 31, 1982, the date of the last actuarial valuation. There were no funding requirements in respect of the year ended October 31, 1983.

10. Contingent Liability

The Bank's potential liability under guarantees and letters of credit amounted to $134,794,000 in 1983 (1982 – $126,900,000).

11. Related Party Transactions

Citibank, N.A. owns 24.2% of the outstanding common shares of the Bank. In the normal course of its business the Bank deals with Citibank on an arm's length basis.

12. Condensed Financial Statements in accordance with Section 215(3)(e) of the Bank Act

Mercantile Leasing Limited
Statement of Assets and Liabilities

As at October 31, 1983 (thousands of dollars)

Assets	1983	1982	Liabilities	1983	1982
Cash	$ 1	$ 1	Mercantile Bank of Canada	$23,825	$23,971
Receivable under lease agreements less unearned finance income of $15,835 (1982-$19,019)	28,756	29,609	Deferred income taxes	3,500	3,840
			Capital stock	1	1
			Retained earnings	1,431	1,798
	$28,757	$29,610		$28,757	$29,610

Statement of Income

Year ended October 31, 1983 (thousands of dollars)

	1983	1982
Income		
Income from lease financing	$ 3,183	$ 3,492
Total income	3,183	3,492
Expenses		
Interest paid to Mercantile Bank of Canada	3,881	—
Other expenses	9	17
Total expenses	3,890	17
Net (loss) income before income taxes	(707)	3,475
Income taxes (recovery)	(340)	1,696
Net (loss) income	$ (367)	$ 1,779

Note

The Mercantile Bank of Canada owned the entire capital stock of Mercantile Leasing Limited. On November 10, 1983 the Bank sold this investment for an amount approximating book value.

MBC Mortgage Corporation
Statement of Assets and Liabilities
As at October 31, 1983 (thousands of dollars)

Assets	**1983**	1982	**Liabilities**	**1983**	1982
Deposits with banks	**$ 1,280**	$ 1,496	Notes payable	**$33,012**	$27,400
Mortgage loans	**42,680**	37,515	Other liabilities	**1,607**	1,562
Other assets	**924**	12	Capital stock	**10,000**	10,000
			Retained earnings	**265**	61
	$44,884	$39,023		**$44,884**	$39,023

Statement of Income
Year ended October 31, 1983 (thousands of dollars)

	1983	1982
Income		
Income from loans	**$5,208**	$3,971
Income from deposits with banks	**219**	255
Total income	**5,427**	4,226
Expenses		
Interest on notes	**4,602**	3,558
Interest on liabilities other than notes	**238**	498
Other expenses	**187**	146
Total expenses	**5,027**	4,202
Net income before income taxes	**400**	24
Income taxes	**196**	12
Net income	**$ 204**	$ 12

Note
The Mercantile Bank of Canada owns the entire capital stock of MBC Mortgage Corporation with the exception of the directors' qualifying shares.

Seven-Year Statistical Review

Consolidated Statement of Assets and Liabilities

As at October 31 (thousands of dollars)

Assets	**1983**	1982	1981	1980	1979	1978	1977
Cash Resources							
Cash and deposits with Bank of Canada	**$ 113,638**	$ 151,348	$ 170,391	$ 129,956	$ 98,132	$ 75,901	$ 4,053
Deposits with other banks	**43,996**	196,281	209,711	444,610	324,833	79,597	61,926
Cheques and other items in transit, net	**—**	—	—	—	—	33,717	47,592
	157,634	347,629	380,102	574,566	422,965	189,215	113,571
Securities							
Issued or guaranteed by Canada	**195,161**	208,763	245,379	333,315	104,069	109,989	99,756
Issued or guaranteed by provinces and municipal or school corporations	**1,485**	—	—	—	99	—	7,090
Other securities	**127,564**	282,157	299,735	200,365	198,467	232,157	226,353
	324,210	490,920	545,114	533,680	302,635	342,146	333,199
Loans							
Day, call and short loans to investment dealers and brokers, secured	**—**	—	—	35,000	104,000	66,350	151,927
Loans to banks	**77,570**	71,218	86,161	88,050	39,914	13,909	14,551
Mortgage loans	**85,839**	98,594	83,906	84,153	80,823	84,150	100,254
Other loans	**3,044,070**	3,102,222	2,748,926	2,572,125	2,033,434	1,535,284	1,277,478
	3,207,479	3,272,034	2,918,993	2,779,328	2,258,171	1,699,693	1,544,210
Other							
Customers' liability under acceptances	**263,853**	121,751	51,995	72,672	18,737	9,657	7,498
Land, buildings and equipment	**42,130**	32,035	15,076	7,533	5,099	4,585	4,246
Other assets	**111,415**	73,563	102,954	106,891	44,905	36,545	21,550
	417,398	227,349	170,025	187,096	68,741	50,787	33,294
	$4,106,721	$4,337,932	$4,014,234	$4,074,670	$3,052,512	$2,281,841	$2,024,274

Liabilities	**1983**	1982	1981	1980	1979	1978	1977
Deposits							
Payable on demand	**$ 61,610**	$ 68,988	$ 81,042	$ 114,233	$ 76,364	$ 75,295	$ 88,873
Payable after notice	**9,848**	5,017	4,365	5,106	4,541	3,940	4,155
Payable on a fixed date	**3,472,572**	3,731,782	3,458,402	3,522,765	2,747,056	2,047,703	1,787,235
	3,544,030	3,805,787	3,543,809	3,642,104	2,827,961	2,126,938	1,880,263
Other							
Cheques and other items in transit, net	**5,303**	87,570	154,935	76,990	18,436	—	—
Acceptances	**263,853**	121,751	51,995	72,672	18,737	9,657	7,498
Other liabilities	**68,053**	101,866	70,170	105,214	43,157	19,874	22,042
	337,209	311,187	277,100	254,876	80,330	29,531	29,540
Subordinated Debt							
Bank debentures	**45,000**	45,000	45,000	42,000	30,000	30,000	30,000
	45,000	45,000	45,000	42,000	30,000	30,000	30,000
Capital and Reserves							
Appropriations for contingencies	**15,833**	12,215	12,531	21,391	16,196	15,721	16,589
Shareholders' Equity							
Capital stock							
Class A Preferred shares	**36,720**	36,720	—	—	—	—	—
Common shares	**40,000**	40,000	40,000	40,000	40,000	40,000	40,000
Contributed surplus	**11,950**	11,950	11,950	11,950	11,950	11,950	11,950
Retained earnings	**75,979**	75,073	83,844	62,349	46,075	27,701	15,932
	180,482	175,958	148,325	135,690	114,221	95,372	84,471
	$4,106,721	$4,337,932	$4,014,234	$4,074,670	$3,052,512	$2,281,841	$2,024,274

Consolidated Statement of Income

For the year ended October 31 (thousands of dollars)

	1983	1982	1981	1980	1979	1978	1977
Interest Income							
Income from loans, excluding leases	**$ 387,688**	$ 573,532	$ 602,388	$ 405,682	$ 261,877	$ 160,190	$ 133,211
Income from lease financing	**3,183**	3,492	3,781	328	—	—	—
Income from securities	**47,140**	50,816	52,844	36,213	30,787	25,839	23,425
Income from deposits with banks	**11,513**	16,016	20,442	21,110	13,082	2,365	1,839
Total interest income, including dividends	**449,524**	643,856	679,455	463,333	305,746	188,394	158,475
Interest Expense							
Interest on deposits	**362,165**	583,364	601,657	396,286	257,817	147,248	127,895
Interest on bank debentures	**4,418**	5,196	5,490	2,906	2,747	2,747	2,217
Interest on liabilities other than deposits	**11,814**	860	269	91	30	190	62
Total interest expense	**378,397**	589,420	607,416	399,283	260,594	150,185	130,174
Net interest income	**71,127**	54,436	72,039	64,050	45,152	38,209	28,301
Provision for loan losses	**16,726**	15,333	9,122	7,385	6,021	4,977	3,851
Net interest income after loan loss provision	**54,401**	39,103	62,917	56,665	39,131	33,232	24,450
Other income	**24,844**	24,457	21,527	16,455	14,212	8,708	9,155
Net interest and other income	**79,245**	63,560	84,444	73,120	53,343	41,940	33,605
Non-Interest Expenses							
Salaries	**23,914**	23,651	21,012	14,877	12,313	9,325	7,990
Pension contributions and other staff benefits	**2,789**	4,374	3,646	2,171	595	749	511
Premises and equipment expenses, including depreciation	**10,602**	7,328	5,622	4,467	3,467	3,098	2,725
Other expenses	**18,586**	19,997	16,986	11,111	9,177	6,827	5,463
Total non-interest expenses	**55,891**	55,350	47,266	32,626	25,552	19,999	16,689
Net income before provision for income taxes	**23,354**	8,210	37,178	40,494	27,791	21,941	16,916
Provision for income taxes	**3,330**	(7,257)	8,898	15,276	4,647	3,836	2,947
Net income for the year	**$ 20,024**	$ 15,467	$ 28,280	$ 25,218	$ 23,144	$ 18,105	$ 13,969
Average number of common shares outstanding	**8,000,000**	8,000,000	8,000,000	8,000,000	8,000,000	8,000,000	8,000,000
Net income per common share	**$ 2.01**	$ 1.93	$ 3.54	$ 3.15	$ 2.89	$ 2.26	$ 1.75
Dividends declared	**$ 8,640**	$ 8,640	$ 7,920	$ 7,200	$ 6,560	$ 6,000	$ 6,000
Dividends per common share	**$ 1.08**	$ 1.08	$ 0.99	$ 0.90	$ 0.82	$ 0.75	$ 0.75

Consolidated Statement of Appropriations for Contingencies

For the year ended October 31 (thousands of dollars)

	1983	1982	1981	1980	1979	1978	1977
Balance at beginning of year							
Tax-allowable	**$ (2,306)**	$ 12,531	$ 21,391	$ 16,196	$ 15,721	$ 16,589	$ 13,325
Tax-paid	**14,521**	—	—	—	—	—	—
Total	**12,215**	12,531	21,391	16,196	15,721	16,589	13,325
Changes during year							
Net loss experience on loans	**(23,808)**	(30,649)	(16,776)	(6,183)	(3,237)	(6,404)	(5,440)
Provision for loan losses included in the Consolidated Statement of Income	**16,726**	15,333	9,122	7,385	6,021	4,977	3,851
Transfer from retained earnings	**10,700**	15,000	(1,206)	3,993	(2,309)	559	4,853
Net change during year	**3,618**	(316)	(8,860)	5,195	475	(868)	3,264
Balance at end of year							
Tax-allowable	**(192)**	(2,306)	12,531	21,391	16,196	15,721	16,589
Tax-paid	**16,025**	14,521	—	—	—	—	—
Total	**$ 15,833**	$ 12,215	$ 12,531	$ 21,391	$ 16,196	$ 15,721	$ 16,589

Consolidated Statement of Changes in Shareholders' Equity

For the year ended October 31 (thousands of dollars)

	1983	1982	1981	1980	1979	1978	1977
Capital Stock							
Balance at beginning of year							
Common shares	**$ 40,000**	$ 40,000	$ 40,000	$ 40,000	$ 40,000	$ 40,000	$ 40,000
Preferred shares	**36,720**	—	—	—	—	—	—
Increase during the year							
Preferred shares	**—**	36,720	—	—	—	—	—
Balance at end of year	**$ 76,720**	$ 76,720	$ 40,000	$ 40,000	$ 40,000	$ 40,000	$ 40,000
Contributed Surplus							
Balance at beginning and end of year	**$ 11,950**	$ 11,950	$ 11,950	$ 11,950	$ 11,950	$ 11,950	$ 11,950
Retained Earnings							
Balance at beginning of year	**$ 75,073**	$ 83,844	$ 62,349	$ 46,075	$ 27,701	$ 15,932	$ 10,497
Net income for the year	**20,024**	15,467	28,280	25,218	23,144	18,105	13,969
Dividends – common shares	**(8,640)**	(8,640)	(7,920)	(7,200)	(6,560)	(6,000)	(6,000)
– preferred shares	**(3,982)**	—	—	—	—	—	—
Share issue expenses net of tax	**(121)**	(598)	—	—	—	—	—
Transfer (to) from appropriations for contingencies	**(10,700)**	(15,000)	1,206	(3,993)	2,309	(559)	(4,853)
Income taxes related to the above transfer	**4,325**	—	(71)	2,249	(519)	223	2,319
Balance at end of year	**$ 75,979**	$ 75,073	$ 83,844	$ 62,349	$ 46,075	$ 27,701	$ 15,932

Thirtieth Annual Meeting of the Shareholders

Minutes of the Thirtieth Annual Meeting of the Shareholders of The Mercantile Bank of Canada held at Le Quatre Saisons, Montreal, on Wednesday, the 11th day of January 1984, at 10:00 o'clock of the forenoon.

The Chairman of the Bank, Mr. R.L. Davidson, presided and the Secretary, Miss V.M. Henderson, acted as Secretary of the Meeting. In opening the Meeting, the Chairman introduced the officers present with him on the platform and also the Directors present at the Meeting.

The Notice of the Meeting having been sent to all Shareholders entitled to receive it and a quorum being reported present, the Chairman declared the Meeting to be duly convened and constituted. He then explained the voting procedures, indicating that each resolution must be passed by a majority of the votes cast.

With the consent of the Meeting, the Chairman appointed Mr. J.A. Moore and Ms. D.C. Orr, both of The Royal Trust Company, to act as Scrutineers.

Upon motion of Mr. H.A. Benham, seconded by Mr. W.E. Bergen and carried, the Minutes of the last Annual Meeting held on January 12, 1983 were taken as read and confirmed.

The Chairman then asked the Secretary to read the Directors' Report to the Shareholders, omitting the Annual Statement and the Auditors' Report as these had already been sent to all Shareholders and copies were in the hands of those present. He indicated that the motion to receive the Directors' Report would be made later in the Meeting.

Directors' Report

Your Directors take pleasure in submitting to you the consolidated Annual Statement of the Bank for the year ended October 31, 1983 together with the Auditors' Report thereon. Statements of Assets and Liabilities for two controlled corporations, MBC Mortgage Corporation and Mercantile Leasing Limited, are included as well; the latter corporation, as indicated in the Notes to the Annual Statement, was sold by the Bank following the fiscal year-end.

During the year the Bank's branch in Kitchener, Ontario was closed. Currently in process is the establishment of a New York State Agency, the principal activity of which will be the funding of the Bank's U.S. business.

Messrs. J.T. Johnson, Q.C., H.H. Stikeman, Q.C. and J.H. Taylor, having reached the retirement age stipulated in the Bank's By-laws, are ineligible for re-election to the Board. Their dedicated contribution to the affairs of the Bank and their wise counsel will be greatly missed.

The Directors wish to record an expression of appreciation to all members of the staff for their loyal and efficient services to the Bank during the past fiscal year.

R.L. Davidson
Chairman, President and
Chief Executive Officer

Montreal
January 11, 1984

The Chairman then addressed the Meeting, following which Mr. R.M. Roy, Executive Vice-President, Corporate Services, delivered the report on the Bank's operations.

(The Chairman's address is reproduced on page 2; Mr. Roy's report appears as "Year in Review" on page 12.)

It was moved by the Chairman and seconded by Mr. S. Abramovitch:

THAT the Directors' Report to the Shareholders, including the Annual Statement and the Auditors' Report thereon, in respect of the Bank's fiscal year ended October 31, 1983, be and the same is hereby received.

The motion was put to the Meeting and carried on a show of hands.

Directors

In proposing that the election of Directors be proceeded with, the Chairman said that thirteen of the present members of the Board, being eligible, were proposed for re-election and that in the place of the three retiring members he proposed for election Mr. S. Abramovitch of Montreal, Mr. I. Jamieson of Georgetown, Ontario and Miss V.M. Henderson, Vice-President and Secretary of the Bank.

The Secretary then read the names of the proposed Directors namely:
R.J. Abercrombie, S. Abramovitch,
A. Bachand, H.A. Benham, W.E. Bergen,
G.A. Costanzo, R.L. Davidson,
C.W. Desch, M. Franklin,
V.M. Henderson, I. Jamieson, M. Perron,
W.R. Rhodes, K. Rotenberg,
H.A. Steinberg and E.D.H. Wilkinson.

Mr. H.H. Stikeman then nominated the persons whose names had been read by the Secretary for election as Directors.

There being no further nominations, it was moved by Mr. J.T. Johnson and seconded by Mrs. K. Sarena:

THAT the nominations be closed and that each of the persons nominated be elected a Director of the Bank for the ensuing year.

The motion was put to the Meeting and carried on a show of hands.

Auditors

It was next moved by Mr. A. Bachand and seconded by Mr. K. Rotenberg:

THAT Peat, Marwick, Mitchell & Cie and Maheu Noiseux be appointed Auditors of the Bank until the next Annual Meeting and that their remuneration in that capacity be not more than $160,000, which amount shall include remuneration for their services as Auditors of the Bank's consolidated domestic subsidiaries.

The motion was put to the Meeting and carried on a show of hands.

Amendment to Section 3.06 of By-law No. 1

The Chairman then said: "As was stated in the Management Proxy Circular, section 3.06 of By-law No. 1, which section deals with the filling of vacancies on the Board, was amended by the Directors so as to provide, as occasion may warrant, for the appointment of one or more Directors additional to the number elected at an Annual Meeting, subject of course to the maximum number stipulated in section 3.01 of the By-law. This amendment, to be effective, must be confirmed by resolution of the Shareholders."

It was moved by Mrs. A. Kanji and seconded by Miss G. Barnes:

THAT the amendment to section 3.06 of By-law No. 1 as made by the Directors of the Bank be and is hereby confirmed.

The motion was put to the Meeting and carried on a show of hands.

The Meeting then terminated.

R.L. Davidson
Chairman

V.M. Henderson
Secretary

Directors

Robert L. Davidson
Montreal
Chairman, President and Chief Executive Officer of the Bank

André Bachand
Montreal
Consultant
Université de Montréal
Vice-President of the Bank

Hugh A. Benham
Winnipeg
Investment Counsel
Vice-President of the Bank

G.A. Costanzo
Vero Beach, Florida
Company Director
Vice-President of the Bank

Robin J. Abercrombie
Vancouver
President
Roberts Creek Resources Ltd.

Sam Abramovitch
Montreal
Chairman
United Westburne Industries Limited

William E. Bergen
Saskatoon
Consultant

Carl W. Desch
New York
Company Director

Mitchell Franklin
Saint John, N.B.
Chairman
Franklin Enterprises Limited

Velma M. Henderson
Montreal
Vice-President and Secretary of the Bank

Ian Jamieson
Georgetown, Ontario
President
Lincluden Management Limited

Michel Perron
La Sarre, Quebec
Chairman and Chief Executive Officer
Normick Perron Inc.

William R. Rhodes
New York
Senior Vice-President
Citibank, N.A.

Kenneth Rotenberg
Toronto
Chairman
Rostland Corporation

H. Arnold Steinberg
Montreal
Executive Vice-President
Finance and Development
Steinberg Inc.

Edward D. H. Wilkinson, Q.C.
Vancouver
Partner
Russell & DuMoulin

Officers

Head Office

Chairman, President and Chief Executive Officer
Robert L. Davidson

Executive Vice Presidents
Nathan Bossen
Finance

Raymond M. Roy
Corporate Services

J. Scott Shelly (Toronto)
Corporate Banking, Canada

Senior Vice President
Larry Pirnak (Toronto)
Credit Policy

Vice Presidents
Walter N. Ancuta
General Counsel

Gillian Barnes
Human Resources

Duncan B. Cameron
Corporate Planning

Maurice M. Christens
Chief Inspector

Velma M. Henderson
Corporate Secretary

Charles A. Hughes
Data Processing & Operations Policy

Ronald W. Price
Taxation

Paul D. Snyder (Toronto)
Credit Policy

Heinz K. Weindler
Chief Accountant

Comptroller
Ian G. Wetherly

Corporate Banking, Canada

Executive Vice President
J. Scott Shelly (Toronto)

Eastern Division

Senior Vice President
J. Raymond R. McManus

Vice Presidents
Michel Létourneau
Quebec City

Robert Massicotte
Eastern Division

Central Division

Senior Vice President
F. Barrie Usher

Vice Presidents
Graham D. Senst
Central Division

Geza Zarand
Winnipeg

Western Division

Senior Vice President
Lloyd M. Craig

Vice Presidents
James R. Booth
Western Division

Lloyd D. McDermid
Energy Group
Calgary

Kevin J. McKenna
Vancouver

F. Derek McLearon
Edmonton

Real Estate Division

Senior Vice President
Alan J. Pyle

Vice Presidents
William G. Bevis
Vancouver

Daniel C. Ghikadis
Real Estate Division

Finance

Executive Vice President
Nathan Bossen

Vice Presidents
Laurier M. Carpentier
International Division

David C. Hodgson
International Treasury

Jack O. Kiervin
Merchant Banking Group

John J. McLaughlin
Merchant Banking Group

Jean A. Plamondon
Domestic Treasury

Marian Zbyradowski
Foreign Exchange

U.S.A.

MBC Financial Services Corporation

President
James S. Parsons

Senior Vice Presidents
Kenneth V. Cooper
Real Estate

J. Robert Fraser
Credit & Operations

J. Michael McMahon
Corporate Finance

Vice Presidents
Robert H. Beriault
Energy (Dallas)

Gregory H. Finch
Real Estate (Los Angeles)

Gary R. Jaeckel
Energy (Denver)

D. Anthony McColl
Secretary

J. Bryan Sutherlin
Chief Petroleum Engineer (Dallas)

David S. Temin
Corporate Finance (Dallas)

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Corporate Banking, Canada

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U.S.A.

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(214) 871-1200

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Los Angeles, California
Atlantic Richfield Plaza
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MBC Realty Corporation
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Other Countries

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